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Another Lap in the International Subsidy Race?

The trade war between the United States and Europe, which has in recent years repeatedly threatened to break out around the issue of subsidies in civilian aircraft construction, appeared last year to have been finally averted: in July 1992, the USA and the EC entered into an agreement on limiting government subsidies.

According to the agreement, in all future projects for the construction of aircraft with over 100 seats direct subsidies for development costs are to be confined to 33% of total costs. Loans are to carry interest rates similar to those on the market and are to be paid back within 17 years. Indirect subsidies, i.e. benefits deriving from government financed research and development projects, in particular in the area of defence, are to be limited to 5% of sales of civilian aircraft by the manufacturer concerned. It was also agreed to exchange information and hold regular consultations to keep better track of the market. In addition, the exertion of any form of pressure on the governments of other countries when selling aircraft was prohibited.

Less than a year after the signing of the agreement, however, the dispute over financial assistance for the Airbus looks like flaring up anew. After the biggest American producer and world market leader, Boeing, announced that 28,000 of its staff of 141,000 world-wide would be made redundant due to the lack of orders for civilian aircraft, the new President of the USA, Bill Clinton, speaking to Boeing workers in Seattle, sharply attacked European aircraft subsidies and pledged support to national firms in their battle with European rivals.

The President's words have met with vehement disapproval in Europe, from Airbus Industries as well as the EC Commission, and contributed to a further worsening of the trade climate between the partners on both sides of the Atlantic, a climate which is already strained by a number of further disputes: apart from the everlasting issue of agricultural policy, there are the problems concerning government tendering in the power stations and communications sectors and the penal duties on steel imports. In view of this response, the question arises as to what the President was actually aiming at in attacking an agreement which had only recently been concluded by his predecessor. As a lever to finally get the consultations foreseen in the agreement underway, this heavy artillery would seem like overkill.

Under the present circumstances, Mr. Clinton's initiative is hardly likely to genuinely help America's aircraft industry. The current decline in demand for passenger aircraft has less to do with unfair trading practices by the manufacturers of these machines and more with the overcapacity of the airlines. Because of the low level of flight bookings, the airlines have been engaged for some time in a war of cutthroat competition that has brought the American companies losses of some 8 billion dollars over the last three years. As a result of this worsening of their financial situation, orders for new aircraft have dropped tangibly. These developments have by no means been confined to American aircraft manufacturers. The American President and his aides ought not to be unaware of this. At any rate, he has also invited representatives of the airlines to preliminary talks on the setting up of a national commission to draft proposals on rescuing the industry.

Imposing sanctions on Airbus imports by implementing anti-dumping procedures, for example, and by introducing penal duties as on imports of steel, would prove to be a two-edged sword. For one thing, it would directly harm the American industry because via its parts supplies it has a share of up to 50% in the value of each Airbus supplied to the USA, as Wolfgang Piller, the general manager of German Aerospace in Munich, has pointed out. For another, the EC's countervailing measures would hit American manufacturers hard, because Boeing still sells many more aircraft in Europe than Airbus in the United States.

This shows quite clearly that ultimately in a trade war there are only losers. For this reason, the attack on the Airbus is also a mistaken way to force a solution to the other trade problems cited above.

Finally, domestic policy goals could have provided the motive behind the President's speech. Almost simultaneously to the charges levelled at Europe with regard to aircraft subsidies, Clinton proclaimed a complete change of course in American research policy. He regards the promotion of top-ranking civilian research as the linchpin of his programme to revitalize the economy. The aim is to promote information technology, car manufacture and energy-saving construction. With direct government assistance, the computer industry is to develop the Data Super Highway, a digital, wide-band data network linking computers in research centres, universities, industrial enterprises and libraries to facilitate the rapid transfer of large quantities of data. With the help of government funding, the car industry is to develop new kinds of motor vehicles that use much less fuel and cause much less environmental pollution to restore the United States to its former leading role in car development. In addition, the building sector is to be encouraged to develop energy-saving construction methods and various branches are to be supported in developing new manufacturing techniques. At the same time, indirect promotion measures, such as the granting of tax benefits for research and development expenditure, are also envisaged.

With this declaration of intent to subsidize research and development, the new President has abruptly departed from his Republican predecessor's policy of entrusting decisions on civilian research to market mechanisms and heralded an active industrial policy such as has already been pursued in Japan and in many European countries for a long time. He is thus in the process of introducing exactly the same kind of subsidies as he has criticised so sharply in the European aircraft manufacturing industry.

However welcome opposition to subsidies in itself is – in the interests of the European taxpayer as well – this criticism can only merit the epithet sanctimonious given the circumstances in which it was made. It is difficult not to suspect that the American President's prime concern is not to roll back European subsidies, but to prepare the Members of Congress, who will have to approve his plans, for his new policy of technology promotion and to make the costs which this policy involves palatable to the American taxpayer. This would be a continuation of the discernible worldwide trend of employing subsidies as an instrument of trade policy for promoting exports and curbing imports in the wake of the progressively retreating customs duties. There is an obvious danger here that another lap in the international subsidy race is about to be run. The costs will again be borne by the taxpayer.

This attempt to make a new industrial policy popular by publicly apportioning blame on other countries is also dangerous for another reason. It could mean the start of a new wave of protectionism both in America and in Europe, which would cause additional delays in the already sluggish GATT negotiations and at the worst could even lead to their definitive failure. The main sufferers from the resulting loss of universal welfare would then be the developing countries, who, since they do not possess any adequate means of applying pressure, in the case of a general trade war would be in danger of being crushed between the fronts of the powerful economic blocs.

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